ALLOCATERITE | Cloud-Based AI-Powered Digital Asset Management Technology™

Monthly Rebalancing Bulletin and Commentary

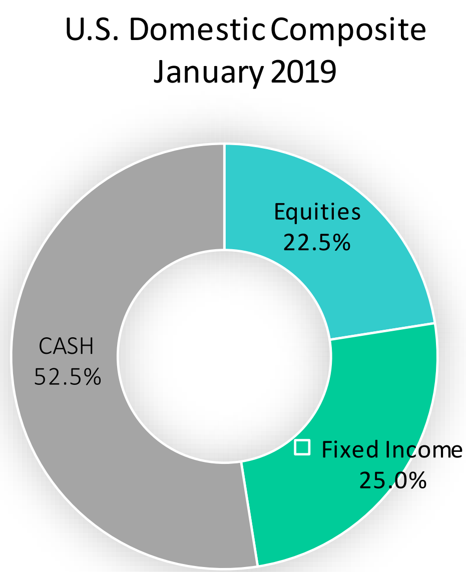
January 2, 2019

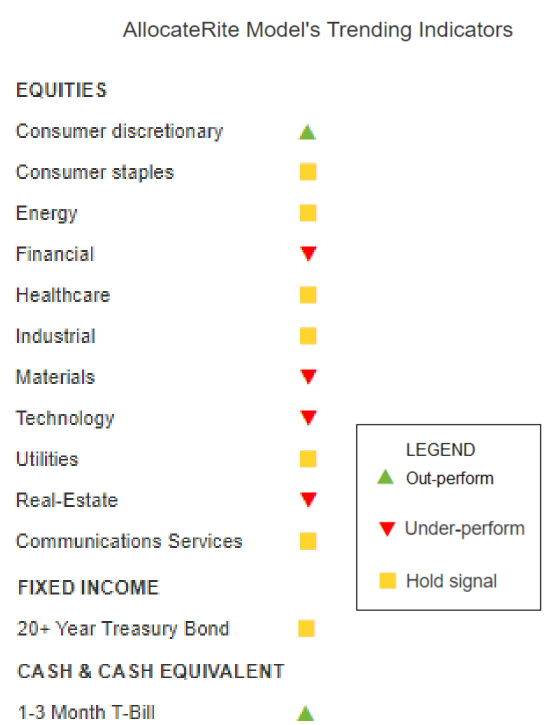
U.S. Domestic Composite

On January 2, 2019, U.S. Domestic Composite's ("ARUSDOM"- Bloomberg ticker) monthly rebalancing marginally decreased its risk position and an overall "risk off" posture. Equities exposure decreased to 22.5% from 30%, while the Cash position moved down from 45% to 52.5%.

- The S&P 500 closed at 2,506.85, down 9.18% (-9.03% with dividends), off 13.97% from its closing high and off 6.24% for 2018. S&P 500 Index approached bear market territory (declining 19.8% from its September high).
- All sectors were hit in December. The best performing sector- Utilities, declined 4.0%, followed by Materials down 6.9%. The worst two were Energy, falling 12.7% and Financials down 11.3. Utilities (+4.1%) and Health Care (+6.5%) posted gains in 2018.
- The U.S. markets were impacted by geopolitical tensions, partial government shut down and recent high-level resignations in the Trump administration.
- Forward P/Es on the S&P 500 declined from its peak of 18.5x in January to a low of 13.5x in December before ending the year at 14.4x.
- FOMC hiked rates a fourth time in 2018, the ninth in its current tightening cycle, with a new target range for the Fed funds rate of 2.25% to 2.5%.
- Powell conveyed less flexibility regarding its quantitative tightening program- its balance sheet reduced nearly 10% to $4.08T.
- The U.S. dollar index rebounded gaining 4.4% in 2018 compared to 2017's decline of 9.9%.
- Oil fell below $43, and closing at USD 45.81, off 40.0% from its Oct. 3, 2018, four-year high of USD 76.41.
- In 2018 S&P 500 buybacks continued to set records, reaching USD 203.8 billion.
- The 10-year U.S. Treasury Bond closed at 2.69%, down from last month's 2.99% (2.41% for year-end 2017 and 2.45% for year-end 2016).
- 2yr-10yr spread flattened to its narrowest spread in a decade, closing out at 20bps, unchanged over the month and more than 30bps tighter on the year.
- Volatility Index (VIX) hit its highest level (25.2%) since February 2018. Intraday volatility increased to 2.56% from November's 1.37%. For 2018, volatility measured 1.21%; the average is 1.43%.
- The economic data showed some signs of slowing -
    - The December PMI® was 54.1%, a decrease of 5.2% from the November.
    - New Orders Index decreased to 51.1%, down 11% from the November.
    - The manufacturing PMI ended December at a 15-month low of 53.8 versus 55.3 for the month of November.
    - The services PMI ended December at 54.4, 0.3% under November with new orders at a 14-month low.
    - November's new home sales were down 12%, and pending home sales dropped nearly 5%, year-over year.

  On the positive side -
    - U.S. real GDP appeared to be on pace to rise 2.9% in 2018, making it one of the strongest years of the expansion.
    - Inflation has remained very close to the Federal Reserve's 2% target.





International & Dynamic Blend Composites

AllocateRite Diversified International Composite ("ARINTNL") and AllocateRite Global Dynamic Blend Composite ("ARDYBLD") strategies were added to include greater global diversification. ARINTNL strategy is comprised of five country ETFs (Japan, Brazil, China, India and Germany) plus a fixed income and cash component; and the ARDYBLD strategy is a dynamic blend of ARUSDOM and ARINTNL strategies.

The Diversified International model ("ARINTNL"- Bloomberg ticker) reduced its overall Equities risk allocation from 35% to 20.0%.

- The MSCI World ex USA Index of developed markets slid 5.17% net for the month and 14.09% net for 2018, while the MSCI Emerging Markets Index (MSCI EM) posted a relatively good outcome for the month with a negative total return of just -2.66% net, though down 14.58% net for the year.

Eurozone:

- Europe continues to be impacted by Britain's unresolved exit from the European Union (EU), and Italy's fiscal stimulus plan that conflicts with EU deficit limits.
- Inflation across the Eurozone fell to an 8-month low of 1.6% in Dec (Nov: 1.9%); core inflation remained steady at 1%, down materially from 2.2% in October.
- The Eurozone Manufacturing PMI data declined to 51.4 in December from 51.8 in November- still expanding, however the lowest since early 2016.
- German economy continued to come down- manufacturing PMI fell to a 33-month low of 51.5 from 51.8 in Nov as new orders fell at the fastest rate in four years.
- Yield of the bellwether 10-year German Bund declined from 0.47% to 0.24%. Italian 10-year yields fell from 3.15% to 2.74% upon reaching an agreement with the EU on their budget- after reducing its fiscal deficit target.

Japan:

- Japanese equities breached bear market territory as the strengthening yen and global trade tariffs pushed the nation's exporters lower.
- **Business Activity Index - fell to a 3-month low of 51.0 in December, down from 52.3 in November, signaling mild growth of service sector output in Japan.**

China:

- China's manufacturing activity contracted for the first time in over two years, PMI declined to 49.4 in December from 50 in November raising concerns of a sharper slowdown.
- **China announced that it would reduce the reserve requirement ratio (RRR) for major banks 100 basis points to 13.50%, effectively increasing the amount of liquidity in the banking system.**

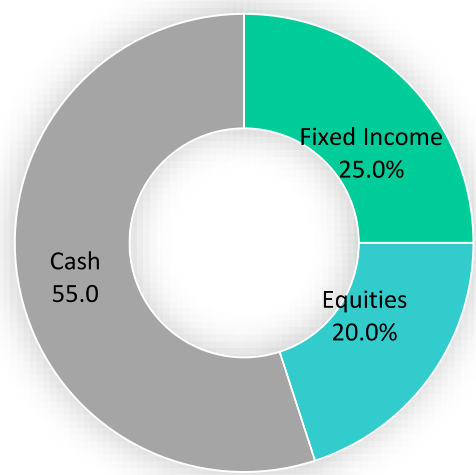
Brazil:

- Bovespa was down -1.53% in December, a good outcome, on a relative basis.
- **IHS Markit Brazil Manufacturing PMI® posted 52.6 in December, near the eight-month high of 52.7, indicating a further strengthening of operating conditions across the sector.**

India:

- The growth of India's infrastructure industries slowed to a 16-month low of 3.5% in Nov; its cumulative growth in Apr-Nov was 5.1% compared with 3.9% in the same period a year ago.
- India Manufacturing Purchasing Managers Index, or PMI, was 53.2 in December, from 54.0 in November. contributed to highest quarterly average since Q3FY12.

Diversified International Composite
January 2019



Change in Country Allocations:

Japan	**EWJ**	**-4.3%**
Brazil	**EWZ**	**-1.8%**
China	**FXI**	**-2.3%**
India	**INDA**	**-2.8%**
Germany	**EWG**	**-3.9%**

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International & Dynamic Blend Composites

As of the January 2019 rebalancing, the optimal ratio for the Global Dynamic Blend Composite (ARDYBLD) moved further in favor of Diversified International (increasing to 56.0%) and bringing the U.S. Domestic allocation down to 44.0%.

AR allocation continued to increase its exposure to the Diversified International Composite supporting the longer-term view that the emerging economies continue to present better fundamentals.

- U.S. Domestic allocation declined further as certain risk signs grow-
  - Expectations that the Federal Reserve may move to tighten monetary policy at a greater pace in terms of interest rate increases and reversing quantitative easing.
  - Slope of the US yield curve remaining on cusp of inversion.
  - Current valuations lower, but still higher on a relative basis.
  - Inflation risks from extensive fiscal stimulus and full employment.
  - Escalating trade war hurting economy and delaying investments.
  - The deficit to GDP ratio is due to increase materially from 1.5%.
  - Signs of a deterioration of risk sentiment across US credit markets, most notably in US High Yield.
  - On the positive side-
    - U.S. economy continues to expand, buoyed by tax reform and deficit spending adding further momentum to the US business cycle.
    - Strong jobs market and low unemployment is driving consumer and business spending.
- Diversified International exposure increased supported by-
  - Long-term growth prospects and cheap absolute and relative valuations.
  - Stronger fundamentals buoyed by more accommodative central banks.
  - Cautionary notes:
    - Political uncertainty, and concerns over global trade protectionism.
    - Policy uncertainty has increased within the European Union. The potential of these and issues surrounding Brexit pose a treat to derailing the EU recovery in the medium term.
    - Emerging market countries commodity exports are still being hurt by lower commodity prices amid a stronger U.S. dollar.
- Overall more cautious posture :
  - Higher U.S. short-term rates creating competition for capital as investors access above-inflation returns in short-term "risk-free" debt with lower risk.
  - Bond yields broadly reflecting increased risk aversion and volatility amid continued macro uncertainty.
  - On-going weakness of world trade reflective of continued under-investment and excess saving, putting downward pressure on the global equilibrium real interest rate.
  - Vulnerabilities increasing amid pockets of high valuations and compressed global risk premia.
  - Renewed debt sustainability concerns.
  - Increasing liquidity strains on investment funds.
  - China's economy is facing growing headwinds— from weakening household spending and declining industrial output.
  - Although…Valuation levels in the US and Europe have come down significantly; Japan and most of the rest of Asia are trading below fair value.